



TFSA Investors: 3 TSX Index Stocks That Could Rally Through the End of 2019

Description

Stocks can rally for different reasons, but it really boils down to the valuation and catalysts. Here are three TSX index stocks that could rally through the end of 2019.

You'll want to do your due diligence on the following stocks before considering them [for your Tax-Free Savings Account](#) (TFSA) to potentially generate some awesome gains as a wonderful Christmas present for you and your family!

Enbridge

Although **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) stock has witnessed price appreciation of 19% in the last year, remarkably, it is only trading at its 2016 levels, while the company has become much larger and more diversified since acquiring Spectra Energy in 2017.



ENB data by YCharts. The one-year price action of ENB stock.

One catalyst that can drive Enbridge stock substantially higher is the commissioning of the Canadian portion of the Line 3 Replacement project that is scheduled for this quarter. The project makes up about 60% of the company's \$9 billion capital program for this year. So, it will make an impact on the stock when it's up and running.

Enbridge is a robust dividend stock. It has increased its dividend for 23 consecutive years in a safe manner. As you can see in the graph below, its yield doesn't normally get past 4.5%.



ENB Dividend Yield (TTM) data by YCharts.

However, the yield has been stuck in the 6% range for some time now. And it's only a matter of time before it reverts to the norm as the company continues to hike its payout. This implies a price target of about \$65 from the current annualized payout of \$2.95 per share.

Spin Master

Spin Master ([TSX:TOY](#)) has been battered down 15% in the last 12 months. The stock trades at a very reasonable price-to-earnings ratio (P/E) of about 18 times at roughly \$37 per share at writing compared to when it was bid up to a P/E of as high as 28 in 2018 with an overly optimistic market!

Spin Master keeps innovating on the back of a global innovation network that involves internal research and development and third-party inventors. Each year, it commercializes only the best 30-50 ideas that are carefully selected from 3,000.

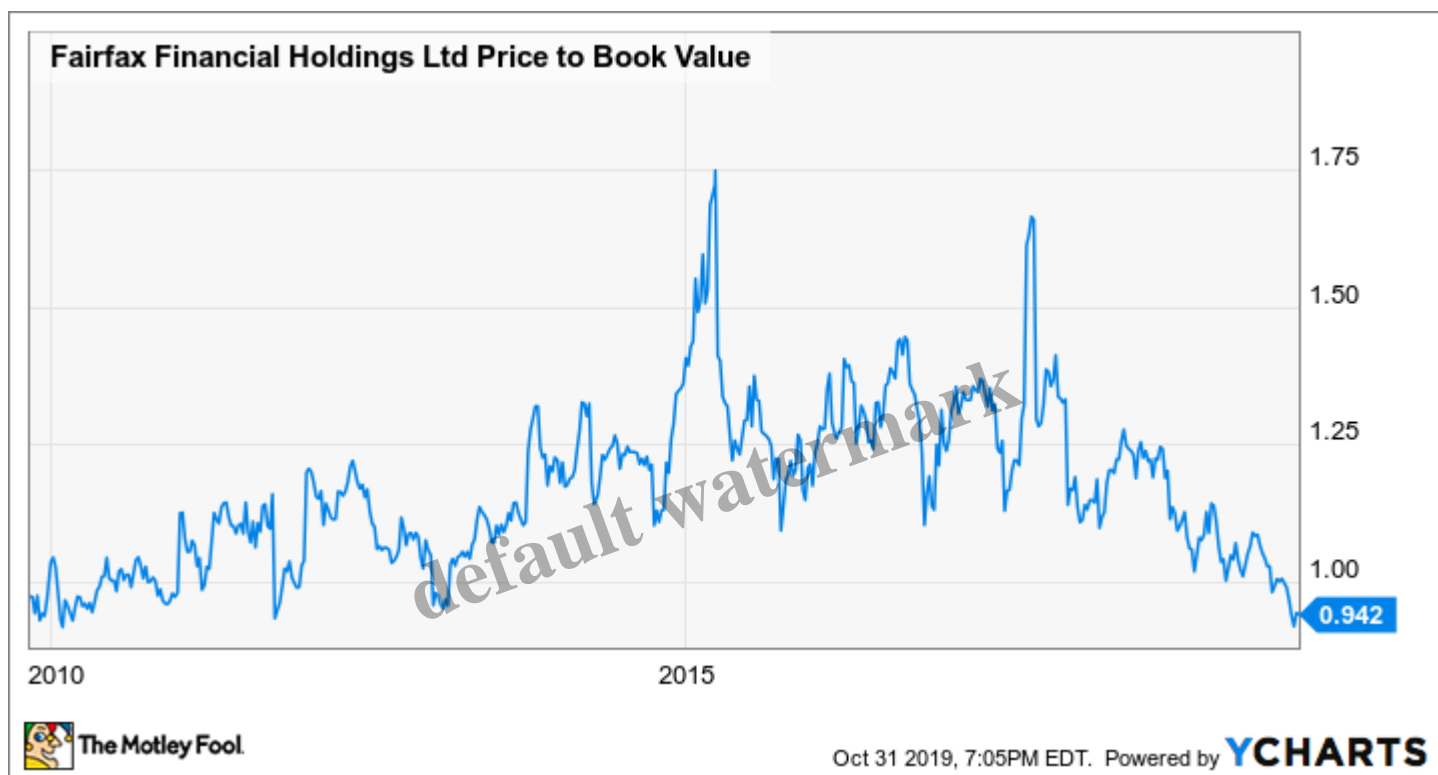
Spin Master has a track record of coming up with winning toys. Since 2000, it has won 30 Toy of the Year awards across various product categories. Additionally, it has also produced popular animated television series, including *Bakugan* and *Paw Patrol*, which is broadcast in more than 160 countries and territories.

If the past is indicative of the future, the upcoming holiday-sale season could be the catalyst to trigger a strong rally in TOY stock by next month! Nine analysts have an average price target of US\$36.80 per share (or CAD\$48.45) on the stock, which represents near-term upside potential of 30%.

Fairfax Financial

If a Santa Claus rally were to happen this year (it didn't happen last year), **Fairfax Financial Holdings** ([TSX:FFH](#)) could be one of the first stocks to benefit due to its cheap valuation.

As the graph below illustrates, FFH stock currently trades at a 10-year low valuation, which is less than its book value.



FFH Price-to-Book Value data by YCharts.

Assuming a more normalized valuation of 1.25 times book value, the stock would have a price target of more than \$740, which represents about 33% upside potential.

Over the years, Fairfax has built an insurance empire via acquisitions to generate float as a source of low-cost capital to invest for higher returns. It only needs a combined ratio of 95% and a 7% return from its investment portfolio to achieve a 15% return on shareholders' equity. Fairfax had achieved double-digit returns in the past. Therefore, a return of 7% per year isn't far-fetched.

In the first half of the year, its insurance operations had a combined ratio of 96.9%. So, they have room for improvement.

Investor takeaway

Buying Enbridge, Spin Master, or Fairfax Financial stocks [can lead to outsized price appreciation](#) through 2019 and into 2020, especially if you do so in your TFSA for tax-free returns!

Stay hungry. Stay Foolish.

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1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:FFH (Fairfax Financial Holdings Limited)
4. TSX:TOY (Spin Master)

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Author

kayng

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